

ROAD HOME PROGRAM
REVIEW OF LMI DETERMINATION



PERFORMANCE AUDIT
ISSUED SEPTEMBER 12, 2007

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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PATRICK GOLDSMITH, PERFORMANCE AUDIT MANAGER,
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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

September 12, 2007

Jerry Luke LeBlanc
Commissioner of Administration
Division of Administration

Dear Commissioner LeBlanc:

This report provides the results of our performance audit on the review of LMI Determination for the Road Home program. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

The report contains our conclusions and recommendations. Appendix A contains the Office of Community Development's response to the recommendations. I hope this report will benefit you in your decision-making process.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

TMI07

Office of Legislative Auditor

Steve J. Theriot, CPA, Legislative Auditor



Road Home Program

Review of LMI Determination

September 2007

Audit Control # 40070014

Objectives and Overall Results

The Office of Community Development (OCD) requested that our office review ICF, International's (ICF) procedures for calculating and reporting low-to-moderate income (LMI) in the Homeowner Assistance Program. In response to its request, we developed an audit objective and conducted a performance audit to specifically answer OCD's question.

The U.S. Code of Federal Regulations (CFR), Title 24, defines LMI as a household having an income equal to or less than the Section 8 low-income limit established by the Housing and Urban Development (HUD) which is 80% of the area median income. States that receive Community Development Block Grant (CDBG) funds must serve primarily low-to-moderate income individuals as a condition of receiving funds. Louisiana is required to ensure that at least 50% of funds disbursed from the 2005 and 2006 special disaster recovery HUD appropriations go to LMI applicants. If Louisiana does not meet LMI requirements, HUD will penalize the state. The objective of our audit and the corresponding results of our work are summarized below.

Objective 1: How does ICF calculate LMI and are ICF's LMI percentages accurate?

Results: The methodology that ICF is using to calculate the LMI percentage is not the methodology that OCD expects it to use. OCD expects ICF to calculate the LMI percentage using all applicants that are certified as LMI. However, ICF is currently calculating the LMI percentage using only those applicants who are eligible for the Additional Compensation Grant (ACG) and submit income documentation. While applicants only qualify for the ACG if they are certified as LMI, not all LMI certified applicants apply for the ACG.

Using OCD's methodology will increase the LMI percentage. However, we found that the self-certified income data in eGrants is not always complete or accurate. For example, we identified 3,624 applicants who did not have any income data in eGrants. In addition, we identified some applicants who did not complete the CDBG form that discloses their level of income. Therefore, ICF needs to ensure that income data is complete and accurate before it can calculate a reliable LMI percentage. In addition, correcting the errors may increase the LMI percentage even more.

Scope and Methodology

This audit is the sixth in a series of reports that reviews various processes within the Road Home program. We reviewed the LMI requirements for the Road Home program in response to

a request from OCD. Our scope for this audit included applicants who closed as of May 9, 2007, and August 21, 2007.

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We followed generally accepted government auditing standards as promulgated by the Comptroller General of the United States.

To answer our objective, we performed the following steps:

- Reviewed federal regulations related to LMI
- Met with ICF and reviewed the current method used to calculate LMI
- Conducted a file review on 56 applicants that received the ACG as of May 9, 2007, to ensure sufficient income documentation was submitted
- Obtained and analyzed amount disbursed per applicant from First American (FA) and recalculated the number of LMI applicants using different methodologies

Appendix A contains a copy of OCD's response to this report.

Background

The U.S. CFR, Title 24, defines LMI as a household having an income equal to or less than the Section 8 low-income limit established by HUD which is 80% of the area median income.¹ As a condition of receiving CDBG funds, HUD requires that states disburse most of their funds to low-to-moderate income individuals. Normally, HUD requires that states disburse 70% of their funding to LMI individuals. However, Louisiana received a waiver that requires the state to disburse a minimum 50% of all CDBG disaster funds to LMI individuals.

CDBG disaster recovery programs total approximately \$10.4 billion with \$6.4 billion going to the Homeowner Assistance Program. All disaster recovery programs combined must ensure that 50% of its funds be disbursed to LMI applicants. OCD has estimated the percent of LMI that each program must achieve to meet HUD's LMI requirement. According to its estimates, the Homeowner Assistance Program must disburse 50% of its funds to LMI applicants for the state to meet the overall LMI requirement.

It is important for OCD to meet the LMI requirement because HUD will monitor the program to ensure that OCD meets this requirement. If OCD does not meet the LMI requirement, HUD will penalize the state.

¹ HUD determines the area median income limits for each parish annually. The 2007 HUD income limit for a family of four in Orleans Parish is \$45,601 (80% of the area median income).

Objective: How does ICF calculate LMI and are ICF's LMI percentages accurate?

The methodology that ICF is using to calculate the LMI percentage is not the methodology that OCD expects it to use. OCD expects ICF to calculate the LMI percentage using all applicants that are certified as LMI. However, ICF is currently calculating the LMI percentage using only those applicants who are eligible for the ACG. While applicants only qualify for the ACG if they are certified as LMI, not all LMI certified applicants apply for the ACG. As a result, ICF is not including all LMI applicants in its current calculations.

Applicants self-certify whether they are LMI by completing a CDBG reporting form (see Appendix B) at the beginning of the application process. ICF uses its current methodology to calculate the LMI percentage because applicants that qualify for the ACG must also supply documentation to support their income. This documentation verifies that applicants are LMI. However, OCD and HUD officials both stated that applicants can self-certify their income for the purposes of LMI and only need to submit income documentation if they also want the ACG. OCD and HUD also verified that a signed CDBG reporting form is considered sufficient documentation to verify LMI. Therefore, ICF should calculate the LMI percentage based on applicants that self-certified that they are LMI on the CDBG reporting form.

Using OCD's methodology will increase the LMI percentage because there will be additional applicants and funds that can be included in the calculation. To show this, we analyzed data on 34,695 applicants who closed with First American as of August 21, 2007. Exhibit 1 summarizes the results of this analysis.

Exhibit 1
Comparison of LMI Methodologies

	Number of LMI Applicants as of 8/21/07	Total Disbursement to LMI Applicants as of 8/21/07
OCD Methodology	17,226	\$1,434,035,028.96
ICF Methodology	15,725	\$1,358,524,843.70
Difference	1,501	\$75,510,185.26
Source: Prepared by legislative auditor's staff using data from eGrants and First American.		

However, there are likely more than 17,226 potential LMI applicants and more than a \$75 million difference because we found that 3,624 applicants did not have any income data entered in eGrants. These applicants may not have completed a CDBG form or the housing advisor did not enter applicants' income information in eGrants. If ICF corrects these errors and these applicants are LMI, then the state's LMI percentage will increase even more. Therefore, ICF should review these cases and ensure that the income field is accurately populated so that the LMI percentage is correct.

In addition, ICF also needs to ensure that the CDBG reporting form is completed and signed by the applicant. We reviewed a sample of 56 applicant files that closed as of May 9, 2007, and found that six (10.7%) did not complete the CDBG form as required. Since the signature and completion of the form constitutes the applicant's self-certification, ICF should ensure that all CDBG forms are completed and signed as required.

Because LMI will be reviewed by HUD at the end of the program, ICF has the opportunity to correct these issues before HUD conducts its review. However, ICF needs to include accurate and complete income data in eGrants to help ensure that the LMI calculation is correct and includes all eligible applicants.

Recommendation 1: OCD should ensure that ICF calculates the LMI percentage according to its expectations.

Summary of Management's Response: OCD agrees with this recommendation and stated that the Week 60 pipeline report is reporting the data correctly.

Recommendation 2: OCD should ensure that ICF includes complete and accurate income data in eGrants. To do this, OCD should require that ICF do the following:

- ICF's post-closing section should review each file to ensure that the income category code and range in eGrants matches what the applicant circled on the CDBG form.
- ICF's post-closing section should review each file to ensure that all CDBG forms are signed.

Summary of Management's Response: OCD agrees with this recommendation and stated that through their monitoring of pre-closing and post-closing files they will be able to validate that the correct forms are being completed and signed.

APPENDIX A: MANAGEMENT'S RESPONSE



Kathleen Babineaux Blanco
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF COMMUNITY DEVELOPMENT

Jerry Luke LeBlanc
COMMISSIONER OF ADMINISTRATION

September 7, 2007

Mr. Steve Theriot
Office of Louisiana Legislative Auditor
1600 N. Third St.
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Control #40070014

Dear Mr. Theriot:

The purpose of this letter is to respond to the Audit Control #40070014, Review of LMI Determination. We appreciate the Office of Legislative Auditor's review of these files. The Office of Community Development, Disaster Recover Unit has been concerned for several months that the data being reported in the Pipeline Report did not adequately document the compensation being received by low-to-moderate income households. For this reason, the OCD has been working with ICF to report the data as requested by OCD. Through our work with ICF, correct reporting of the LMI households began in the Road Home Week 60 Situation & Pipeline Report that was out the last week of August, 2007.

We also have the following responses to your recommendations.

OLA recommendation #1: OCD should ensure that ICF calculates the LMI percentage according to our expectations.

OCD response: Our office agrees with your recommendation. Based on the Road Home Week 60 Situation & Pipeline Report, we believe that the data is being reported correctly. The DRU staff will continue to monitor to assure that the documentation is accurate.

OLA recommendation #2: OCD should ensure that ICF includes complete and accurate income data in eGrants.

OCD response: Our office agrees with your recommendation and through our monitoring of pre-closing and post-closing files we will be able to validate that the correct forms are being completed and signed.

In conclusion, OCD agrees that it is very important to assure that all households, either through self certification or validation due to homeowner receiving an ACG, need to be documented as LMI. It is of great importance to the OCD that every effort possible is made to

Mr. Steve Theriot
September 7, 2007
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meet the HUD requirement that 50% of all the funds reach low-to-moderate households. We believe that through better coordination and understanding with our contractor and our monitoring strategies, we will be able to assure that appropriate documentation is available.

Sincerely,


Susan Elkins *for*

c: Thomas Brennan
Mike Spletto
Rich Gray
Michael Taylor

APPENDIX B: CDBG REPORTING FORM

Appendix B

2007 CDBG Form

Applicant Income Information

Applicant Name (typed)		
	Last	First

Application ID #

Co-Applicant Name (typed)	
Last	First

Damaged Residence Parish ORLEANS

The Road Home Program is required to collect information on applicant's income for two reasons:

1. HUD's Community Development Block Grant Program requires us to report on income levels of households who benefit from program funds.
2. Low and moderate income households may be eligible for an affordable loan as well as a grant. If you fit into the category, we will notify and require you to verify your income.

Please circle the income range that applies to your current household. *Income* means the gross annual income (before taxes or any other deductions) of all adult (18 and over) household members. To estimate your annual income, you may use the total household income over the last three months and multiply it by 4.

ANNUAL HOUSEHOLD INCOME - ORLEANS

Household Size	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Group A	\$31,901 or more	\$36,501 or more	\$41,051 or more	\$45,601 or more	\$49,251 or more	\$52,901 or more	\$56,551 or more	\$60,201 or more
Group B	\$19,951 to \$31,900	\$22,801 to \$36,500	\$25,651 to \$41,050	\$28,501 to \$45,600	\$30,801 to \$49,250	\$33,051 to \$52,900	\$35,351 to \$56,550	\$37,601 to \$60,200
Group C	\$11,951 to \$19,950	\$13,701 to \$22,800	\$15,401 to \$25,650	\$17,101 to \$28,500	\$18,451 to \$30,800	\$19,851 to \$33,050	\$21,201 to \$35,350	\$22,551 to \$37,600
Group D	\$11,950 or less	\$13,700 or less	\$15,400 or less	\$17,100 or less	\$18,450 or less	\$19,850 or less	\$21,200 or less	\$22,550 or less

The undersigned agrees and acknowledges that the information provided is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of the information may result in Civil Liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made in this application, and/or in criminal penalties including, but not limited to, fine, imprisonment or both under the provision of Title 18 United States Code Section 1001.

I certify that, to the best of my knowledge and belief, all the information above is true, correct, complete, and provided in good faith. I understand that false or fraudulent information may be grounds for not making a grant and/or loan and may be punishable by a fine and/or imprisonment. I understand that any information I give may be investigated. (Louisiana Criminal Code: R.S. 14:67, Theft; R.S. 14:67, Identify Theft; and/or R.S. 14:72, Forgery).

Applicant Signature _____

Date _____

Co -Applicant Signature _____

Date _____